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ABSTRACT

The Office of Inspector General (OIG) continues to focus its energies on some of the significant challenges facing the U.S. Department of Education. It completed implementation and end-to-end testing of its internal systems for Y2K compliance, though it could not ensure compliance of its trading partners. The OIG advised the Department as it developed a sound and integrated information-technology architecture. The OIG also found that the Department needed to improve its contract-monitoring oversight and recommended corrective actions. The Department's new accounting system poses problems, including its inability to perform a year-end closing process, resulting in auditors not being able to express an opinion for fiscal year 1998. The OIG is working with the Department to resolve these problems. Issues regarding student financial assistance were examined, such as inappropriate discharge of student loans, eligibility, default, and refund fraud, and cost-study follow-ups. Schoolwide programs now allow schools to use federal funds for whole-school improvement projects instead of specific programs. Concluding charts include reporting requirements, Inspector General's reports with questioned costs and recommendations for better use of funds, a list of unresolved reports prior to April 1, 1999, cumulative prosecutive actions, and a statistical profile for April 1-September 30, 1999. (RT)

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U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress

No. 39

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U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress

No. 39

April 1 — September 30, 1999

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

October 29, 1999

Honorable Richard W. Riley
Secretary of Education
Washington, DC 20202

Dear Mr. Secretary:

I am pleased to submit this semiannual report on the activities of the Department's Office of Inspector General (OIG) for the six-month period ending September 30, 1999. Submission of this report is in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, as amended). The Act requires you to transmit this report within thirty days to the appropriate Congressional committees and subcommittees, along with any comments you may wish to make.

As the Department's new Inspector General, I am encouraged by the willingness of Department managers to work with OIG to resolve issues our audits, investigations and inspections have raised. My office has closely monitored the Department's progress toward Year 2000 readiness, advised the Department in its implementation of the Government Performance and Results Act, and provided substantial feedback on the Modernization Blueprint to overhaul the student financial assistance programs. The Department has offered cooperation and assistance to address the problems we are identifying.

I look forward to continuing to work with you and Department managers in the year ahead, as we seek to ensure the efficiency, effectiveness and integrity of Education Department programs and operations.

Sincerely,

Lorraine Lewis

Lorraine Lewis

Enclosure

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

INSPECTOR GENERAL'S
MESSAGE TO CONGRESS

In June of this year, I became the Inspector General of the U.S. Department of Education and immediately found myself a member of two distinguished communities: the Department of Education and the President's Council on Integrity and Efficiency (PCIE). The last several months have been instructive for me, and I am encouraged by the working relationships I have developed with the Secretary and other Department officials, Members of Congress and their staff, and other Inspectors General.

I am cognizant of the exceptional character and singular significance of the mission of the Office of Inspector General. I am committed to that mission. My office is working cooperatively with both the Secretary and the Congress so that our audits, investigations, inspections and other work products help the Department carry out its own mission with the highest levels of efficiency, effectiveness and integrity. For example, we continue to oversee the critically important efforts to ensure that the Department, its grantees and contractors are Year 2000 (Y2K) compliant. In July, we issued our second report to Congress on the Y2K readiness of the Department's student financial assistance programs.

My office is providing Student Financial Assistance — the Department's Performance-Based Organization — with continual feedback on the Modernization Blueprint and recommendations for improving accountability and fraud control. I am proud to announce that the PCIE recently honored this Office for a successful long-running investigation to root out fraud in the Pell Grant program.

We previously reported that our audit of the Department's financial statements would be delayed because the Department's financial records were not ready for audit. In mid-November we will be transmitting a disclaimer of opinion on the Department's Fiscal Year 1998 financial statements, primarily because of financial reporting weaknesses in the Department's automated system. The Department also did not adequately perform reconciliations and could not provide sufficient documentation supporting transactions. My office and the

Department are working to address these issues and are committed to achieving the March 1, 2000 statutory reporting date.

We are focusing on the Department's implementation of the Government Performance and Results Act. My office has worked with the Department to develop data quality training for managers and staff to help them prepare the fiscal year 1999 performance report. We will be reviewing the Department's processes to ensure that data on its programs are reliable and valid. These efforts will assist Congress in their review of the Department's first performance report.

I look forward to continuing our work with the Secretary and other Department officials and the Congress, helping them ensure that our education programs serve the nation's students and taxpayers.

Lorraine Lewis

Lorraine Lewis

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SIGNIFICANT ACTIVITIES AND ACCOMPLISHMENTS

The Office of Inspector General (OIG) continues to focus its work effort and resources on some of the most significant challenges facing the U.S. Department of Education (ED or the Department and Congress). Chief among these challenges are the preparation for Year 2000 (Y2K), the Department's production of auditable financial statements, and the Student Financial Assistance Programs (SFA) modernization effort and management of the SFA programs.

YEAR 2000

Our review of the Department's Y2K compliance for processing, delivery, and administration of the SFA programs found that the Department substantially completed implementation and end-to-end testing of its internal systems. Survey results raise concerns that a significant percentage of postsecondary institutions might be at risk for Y2K-related failures. The seriousness of this issue warrants outreach by Congress *(page 2)*.

FINANCIAL STATEMENTS

The Department will receive a disclaimer of opinion on its Fiscal Year (FY) 1998 financial statements, primarily because of financial reporting weaknesses in its automated system. The Department also did not adequately perform reconciliations and could not provide sufficient documentation supporting transactions. The Department is working to address these issues, and the OIG and its independent public accountant are working closely with the Department on the FY 1999 financial statements. The Department and the OIG are committed to achieving the March 1, 2000 statutory reporting date *(page 4)*.

STUDENT FINANCIAL ASSISTANCE

The SFA programs continue to constitute one of the Department's greatest management challenges. Congress authorized creation of a Performance-Based Organization (PBO) in SFA. This period we identified both systemic weaknesses and individual instances of fraud that have caused financial losses to the Department and to taxpayers ranging from a few thousand dollars to millions of dollars. The Department is working to address many of the recommendations we have made for improving accountability and fraud control. During the reporting period, OIG provided comments and technical assistance relating to SFA's drafts of the Customer Service Task Force Report, the Modernization Blueprint, and the Five Year Performance Plan *(page 6)*.

ADDITIONAL SIGNIFICANT ACTIVITIES

The OIG also reviewed the Department's contract monitoring oversight and various initiatives and programs in the elementary and secondary education area, specifically, school-to-work and schoolwide programs. We continue to advise the Department in its implementation of the Government Performance and Results Act.

The OIG is committed to improving the quality of independent public accountant (IPA) audits of participants in the Department of Education grant and loan programs. We provide a high level of technical assistance to IPAs, and we also perform quality control reviews of their audits.

Descriptions of these and other significant OIG activities and accomplishments of the reporting period appear below. They are organized under the major headings of Departmental Operations and Departmental Programs. Tables containing statistical information pursuant to the requirements of the Inspector General Act of 1978 (Public Law 95-452, as amended) follow on page 14.

DEPARTMENTAL OPERATIONS

INFORMATION TECHNOLOGY

The OIG continued to focus its efforts on the Department's management of information technology. During this period, we closely monitored the Department's progress toward Year 2000 readiness. We also resolved pending recommendations from our 1998 audit of the Department's Clinger-Cohen Act implementation, and reported on the acquisition process for the SFA information systems. Additionally, the Department recently hired a new chief information officer (CIO), and SFA filled a CIO position in its organization. We will work with both CIOs to discuss their priorities and will address them in our work plans.

YEAR 2000

The Department has made significant progress in preparing for the Year 2000. This period, the Department reported that its mission-critical systems were renovated, tested, and implemented by the March 31, 1999 deadline set by the Office of Management and Budget. The OIG continues to monitor the Department's progress in preparing for the Year 2000.

Y2K Compliance of SFA Delivery Systems

Our review of the Department's Y2K compliance for processing, delivery, and administration of the SFA programs *(ACN: S11-90016, issued July 16, 1999)* was the second of two reports on Y2K required by the Higher Education Act Amendments of 1998. We found that ED substantially completed implementation and end-to-end testing of its internal systems. The Department performed extensive outreach efforts with its trading partners to promote awareness, provide technical assistance, and learn about the progress these entities had made. However, ED cannot ensure that its trading partners will be Year 2000 compliant.

We reported our concerns about the Y2K readiness of postsecondary institutions. Survey results indicate that a significant percentage of postsecondary institutions could be at risk for Y2K-related failures. Because of the seriousness of this problem, we recommended that members of Congress promote Y2K awareness at postsecondary institutions in their districts and states.

ED has made substantial progress in developing its business continuity and

contingency plans, but the Department needs to continue its efforts to develop, test and refine its plans.

Y2K Readiness at Guaranty Agencies

Our review of Y2K readiness at six guaranty agencies *(ACN: 11-80015, issued May 4, 1999)* identified three issues the Department needs to address as it continues to monitor the 36 guaranty agencies participating in the Federal Family Education Loan Program.

First, entities could receive erroneous data or no data if one or more of their data exchange/trading partners have computer failures. These failures could make the entities incapable of performing their functions effectively. Second, we found that five of the six agencies had not established Y2K contingency plans, although three of the five had plans to do so. Third, the Department needs to actively monitor guaranty agencies that implement new systems in 1999.

OIG conducted assessments at five additional guaranty agencies. We will report the results in our next *Semiannual Report.*

In September the Inspector General spoke to a group representing guaranty agencies, and discussed the results of OIG's Y2K work.

MANAGEMENT OF INFORMATION TECHNOLOGY

OIG activities related to the Department's management of information technology were wide-ranging.

Clinger-Cohen Act

The Clinger-Cohen Act of 1996 (Public Law 104-106) requires agency chief information officers to develop, maintain, and facilitate the implementation of a sound and integrated information technology architecture. Student Financial Assistance has made progress in resolving the concerns we raised about its ability to comply with Clinger-Cohen Act requirements in our 1998 audit report (*ACN: A11-70001, issued March 1998).* This period, we advised the Department that we consider the issue resolved. The Department has developed a comprehensive corrective action plan and is working to implement all of our recommendations. We will continue to monitor the Department's compliance with Clinger-Cohen requirements.

Information Technology Acquisition

Our audit of the Department's acquisition process for the SFA information systems *(ACN: 11-80004, issued May 17, 1999)* disclosed several weaknesses in SFA's process for acquiring information technology (IT) systems. Most critical was the absence of a formal IT acquisition process that clearly defined the roles and responsibilities of involved parties and offices, resulting in inconsistency, poor communication, and indecisiveness. We also noted inadequate planning, acquisition timeframes that were too lengthy to be practical, and the fact that most of the employees with key roles in the process had limited training, experience, and education in the field of electronic data processing. The Department's response indicated general

agreement with our audit findings. We concluded fieldwork in October 1998, prior to the creation of SFA as a Performance-Based Organization.

GAPS Configuration Management Process

Our review of the Grant Administration and Payment System (GAPS) configuration management process *(ACN: A11-90004, issued May 7, 1999)* found areas where Office of Chief Financial Officer (OCFO) management could strengthen overall accountability and control. We recommended that OCFO management implement its configuration management plan. This included addressing all key roles and responsibilities, improving the identification of key configuration components, addressing configuration management controls, and performing configuration audits. OCFO expressed agreement with our audit findings.

Management of Information Technology Contracts

In January 1998, the OIG initiated a two-year project to review information system contractors for SFA programs. The review included evaluation of performance monitoring by the contractor and Department staff.

The Department Can Improve Its Contract Monitoring Oversight

We found that Department officials

- authorized new tasks, but had not formalized the tasks into the contract *(SFA Action Memorandum 99-01, dated October 1998)*;
- did not monitor reimbursements due the Department on one contract *(SFA Action Memorandum 99-02, dated November 1998)*; and
- were not aware of key personnel changes, or that key personnel were not dedicated to the contract as required *(ACN: A07-80018, dated May 1999)*.

Without effective oversight, the Department has no assurance that contractors adhered to contract terms and provided the products or services for which they were paid. We recommended corrective actions, with which the Department agreed, to address the problems we identified.

Financial Statement Audit

Fiscal Year 1998 Financial Statement Audit

The draft audit reports on the Department's Fiscal Year (FY) 1998 financial statements will be released in November 1999. The independent public accountant under contract to the OIG will issue a disclaimer of opinion on the FY 1998 financial statements.

New Accounting System Poses Problems

The Department of Education operated under a new accounting system in FY 1998, and the auditors discovered several limitations in the financial reporting process. These weaknesses, such as the system's inability to perform a year-end closing process or produce automated consolidated financial statements, were significant factors in the Department's inability to prepare accurate consolidated financial statements in a timely manner.

Auditors Could Not Express Opinion For FY 1998

Because of these and other problems — including the fact that the Department did not adequately perform reconciliations and could not provide sufficient documentation supporting transactions — the scope of work was not sufficient to enable the auditors to express an opinion on the FY 1998 financial statements. The Department is currently replacing part of its financial systems. In the interim, the Department has developed short-term automated solutions that it believes will allow it to overcome some of the serious systems problems in time for the preparation of FY 1999 financial statements.

Department Needs to Resolve Issues

In addition to disclaiming an opinion, the report on internal controls identified other issues which are systemic in nature, and which the Department must address to prepare timely and accurate financial statements. The Department is working to address system limitations and internal control weaknesses, and the OIG and its independent public accountant are working closely with the Department on the FY 1999 financial statements. The OIG and the Department are committed to achieving the March 1 statutory reporting date.

GOVERNMENT PERFORMANCE AND RESULTS ACT

The Results Act required federal agencies to submit five-year strategic plans and annual plans beginning with Fiscal Year 1999. The Results Act also requires agencies to prepare annual performance reports beginning with fiscal year 1999. The first report is due in March 2000.

OIG Advisory Efforts

During this period, we continued to participate in an advisory capacity to the Department in its implementation of the Results Act. The OIG worked with the Department on its data quality standards and the development of training on those standards. Department managers will use the standards to make an assertion about the reliability of data used to inform performance indicators in the annual performance report.

Ensuring the Reliability of Data

This period, we presented to Department managers the preliminary results of our review to identify controls that ensure the reliability of data submitted by state education agencies (SEAs) for the Title I of ESEA and Perkins Vocational Education programs. We will detail the results of this work in an information report that we will issue during the next reporting period. The OIG is currently performing similar work assessing the Individuals with Disabilities Education Act, Part B data that SEAs submit. In addition, the OIG has begun a readiness assessment to determine if the Department's program offices will be prepared to report on the performance indicators for the March 2000 report.

DEPARTMENTAL PROGRAMS

STUDENT FINANCIAL ASSISTANCE

The SFA programs have historically constituted the greatest portion of OIG's investigative caseload, as well as a significant percentage of our audit effort.

MODERNIZATION BLUEPRINT

The Modernization Blueprint is SFA's plan to overhaul the Department's student aid delivery system. We provided feedback on drafts of the Blueprint. Our comments presented suggestions to help SFA manage risks during implementation of the Blueprint. The Blueprint is available on the Internet at www.easi.ed.gov. During the reporting period, we also provided comments on drafts of the Customer Service Task Force Report and the Five-Year Performance Plan.

HIGHER EDUCATION AMENDMENTS

On October 7, 1998, the President signed into law the Higher Education Amendments of 1998, amending the Higher Education Act of 1965. Before publishing any proposed regulations to implement programs under Title IV, the Secretary was required to conduct a negotiated rulemaking process to develop proposed regulations.

OIG Staff Contributions to Negotiating Committees

The Secretary of Education formed negotiating committees to address issues pertaining to lender and guaranty agencies, loans, refunds, program and student eligibility, and institutional eligibility. The committees met from January through June 1999. Representatives from the Office of Inspector General attended the sessions to provide appropriate advice and technical assistance to the Department.

After publishing the Notice of Proposed Rulemaking for each regulatory package resulting from the process, the Department prepared the Final Regulation package based on comments received. The Department published the Final Regulations on November 1, 1999.

DISCHARGE OF STUDENT LOANS

SFA requested an audit of the process for forgiving student loans. Our audit report "Improving the Process for Forgiving Student Loans" *(ACN: 06-80001, issued June 7, 1999)* revealed control weaknesses in the discharge of student loans. Correcting these deficiencies could result in the better use of $35 million annually.

Inappropriate Discharges

Our audit disclosed that student loans are being discharged (forgiven) for total and permanent disability and death, even though the borrowers are apparently not totally and permanently disabled or deceased. Inappropriate discharges are occurring because of control weaknesses in the current system for determining borrower eligibility for the disability or death discharge. We recommended that SFA implement enhanced procedures, and provide guidance to guaranty agencies. These recommendations are intended to improve accountability and fraud control.

Departmental Actions

Following the issuance of our audit report, representatives of OIG and SFA met to collaborate on methods for identifying borrowers who may have submitted false death or disability forms to have their student loans discharged. This joint initiative is one of the Department's many planned corrective actions in response to our audit report. The intent is to identify suspected abusers, reinstate the loans with accrued interest, and pursue criminal prosecution when warranted.

Guilty Plea in Fraudulent Discharge

The first OIG criminal case involving disability discharge fraud was indicted during this period and the defendant recently entered a guilty plea. On September 1, 1999, a student borrower was indicted in Ohio on two counts of false statements. The investigation revealed that the student made misrepresentations about his medical condition to obtain a doctor's certification stating that he was permanently and totally disabled. The certification discharged his obligation to repay five federally guaranteed student loans involving accrued interest and administrative fees totaling $27,855.

COST STUDY FOLLOW-UP

In our last *Semiannual Report (No. 38*, pages 6 and 20), we discussed the study that we conducted to assess the impact of cost issues on the Federal Family Education Loan and Federal Direct Loan Programs.

Testimony on Cost Issues

This period, the Assistant Inspector General for Audit testified before the House Subcommittee on Criminal Justice, Drug Policy and Human Resources, Committee on Government Reform about this cost study. The testimony reported our two principal conclusions: 1) that in any given year, Federal Direct Loan Program (FDLP) or Federal Family Education Loan Program (FFELP) total costs (administrative and subsidy) may be greater, given the effect of prevailing economic conditions on subsidy costs; and 2) that inefficiencies likely affect the Department's administrative costs in both programs. The testimony stated that neither program, FDLP nor FFELP, was cheaper or more efficient than the other.

Additionally, we shared our report's recommendations designed to address cost inefficiencies and improve the management of both programs. The Acting Deputy Secretary and the Chief Operating Officer, SFA, also testified at this hearing.

PATTERNS OF FRAUD

OIG investigations continue to identify patterns of fraud against both the loan and Pell Grant programs. This period the majority of our cases fell into three general areas: eligibility fraud, default fraud, and refund fraud.

Our efforts in investigating eligibility fraud were recognized by the President's Council on Integrity and Efficiency in September 1999, when agents from our New York office and two federal prosecutors received an Award for Excellence. The award was based upon the investigation and conviction of four members of a multi-million dollar Pell Grant fraud scheme at Toldos Yakov Yosef Seminary (see *Semiannual Report No. 38*, page 23).

Eligibility Fraud

Our investigations revealed school owners who fraudulently obtained Pell Grants, student loans, and other SFA program funds for persons who never attended the schools. Employees at postsecondary institutions also sometimes took advantage of their positions to defraud the SFA programs. In addition, we conducted investigations of Free Application for Federal Financial Aid fraud by recipients.

The schemes involved a variety of means including falsification of documents leading to prosecution under federal criminal statutes covering SFA fraud, wire fraud, mail fraud, and other criminal charges.

- The owner of Midwest Career College, Indianapolis, Indiana, pled guilty to student aid fraud and conspiracy. Investigation found that he obtained Pell Grants for persons who did not attend the school. He also failed to pay Pell Grant and student loan refunds. He was recently sentenced to 41 months incarceration and ordered to pay restitution of $205,000.

- A college work-study employee at Lassen Community College, Alturas, California, was sentenced to 30 months imprisonment and ordered to pay restitution of $38,848. The defendant obtained SFA for ineligible students by filling out false enrollment applications.

- A student was sentenced in Milwaukee, Wisconsin, to 17 months incarceration, three years supervised release, and ordered to pay $87,832 restitution. Investigation disclosed that he falsely represented having a baccalaureate degree, thereby obtaining Pell Grants for which he was not eligible.

OIG continues to devote investigative resources to cases involving individuals who have defrauded the Federal Family Education Loan Program by falsely claiming enrollment in foreign institutions. Recent investigations reinforce our concern that FFELP is still vulnerable to fraud in the area of individuals who procure financial aid, but fail to attend foreign schools. In a 1997 report, the OIG brought the vulnerabilities to the Department's attention, and made recommendations for improving accountability and fraud control.

- Between 1996 and 1999, an individual allegedly submitted about 37 FFELP applications falsely claiming enrollment at four schools in Mexico. At the time, he

was on federal supervised release. (He had previously been convicted of defrauding the FFELP of some $160,000 by falsely claiming attendance at a foreign medical school). The 37 applications, which he allegedly submitted to four guaranty agencies, resulted in the disbursement of approximately $319,680. He was re-arrested in August 1999.

- Two defendants were sentenced to lengthy probation periods and ordered to make full restitution in Sacramento, California, for engaging in a scheme to commit mail fraud to receive federal student loan funds allegedly to attend Le Cordon Bleu School of Cooking, United Kingdom. Our investigation showed that they falsified various documents to make it appear that they were attending the cooking school. Instead, they and one other individual defrauded or attempted to defraud ED out of approximately $73,000.

Default Fraud

Our investigative efforts have identified instances of default fraud by both schools and student recipients.

Schools are subject to termination from SFA programs – including the Pell Grant programs and the loan programs – when their cohort default rate for the three most recent consecutive years is equal to or greater than 25 percent. Our investigations have disclosed school owners and officials who fabricate or forge loan deferments and forbearances for their former students, who would otherwise go into default and cause the school's cohort default rate to reach above the threshold rate for the termination in the third year.

- The owner of Franklin School of Cosmetology in New Jersey was sentenced to more than four years of incarceration, and ordered to pay restitution in excess of $840,000 for his role in a scheme to lower his school's cohort default rate. Under his direction, employees submitted hundreds of forged and fraudulent documents to two loan-servicing agencies in an effort to place students unknowingly into forbearance and deferment. The owner's sister pled guilty, and two school employees were sentenced for their roles in the fraud. The effect of their action was to reduce the school's cohort default rate in the third year from 55.3 percent to 9.5 percent, and maintain eligibility for SFA for another year.

The OIG believes a provision of the Higher Education Amendments of 1998 will make this type of fraud significantly more difficult, if not impossible, to prove in the future. Congress deleted the requirement that forbearance requests be in writing (Section 428 (c)(3)). The OIG used the fraudulent written forbearance requests prepared by the Franklin School of Cosmetology to prove the fraud and tie it to particular individuals.

Individuals who have previously defaulted on a student loan are ineligible for subsequent student loans, unless the debt is resolved or the loan is rehabilitated. Investigations have identified individuals who have on their student aid applications concealed previous defaults, thereby obtaining SFA for which they were ineligible.

- Our National Default Project focused on student borrowers who received financial aid after having previously defaulted on

student loans. (See *Semiannual Report No. 37*, page 18, for a description of our audit report, "Applicants with Defaulted Student Loans Continue to Receive Student Aid," *ACN 06-70004, issued June 23, 1998.*) The results of the project included 21 prosecutions with $323,580 in criminal restitution and civil recoveries. Not all of the prosecutions were in this reporting period, and some actions are still pending.

Refund Fraud

OIG investigations continue to identify school officials who fail to pay Pell Grant and loan refunds to the Department of Education or lenders when students withdraw, or fail to attend.

- The owner of Interstate Business College in North and South Dakota was sentenced to 18 months of incarceration for failure to refund more than $500,000 in Title IV refunds for 278 students. After the students withdrew or stopped attending, the owner retained the funds that should have been returned to ED. As a part of her plea, she agreed to pay $914,000 in restitution for unpaid refunds and credit balances owed to students.

- After nine years of investigation, prosecution, and appeals, the owner and operator of California Institute in Long Beach, California, was sentenced to 46 months of incarceration and ordered to pay $250,000 restitution. Investigation disclosed that he had retained about $6.3 million in guaranteed student loans for students who did not complete their training.

CIVIL FILINGS

The following civil actions took place during the reporting period.

- The United States Attorney for the Northern District of Illinois filed a False Claims Act lawsuit against Chicago-based Corus Bankshares, Inc., and its subsidiary Corus Bank, N.A. The lawsuit alleges that Corus submitted thousands of fraudulent insurance claims for defaulted student loans during the period 1988 through 1994. The alleged fraudulent claims resulted in payments totaling in excess of $11.8 million. Corus Bankshares, Inc. and Corus Bank, N.A. filed an answer denying liability and a counter-claim and third-party complaint in response to the lawsuit.

Two civil settlement agreements were filed in U.S. District Court, Northern District of Ohio, between the United States in a False Claims Act suit and a school owner and his son. The owners agreed to pay $1 million and the corporation agreed to pay an additional $500,000. In 1986 the school owner admitted that Programming & Systems, Inc. misrepresented its withdrawal rates to the Department and accrediting agencies. The school chain misrepresented the rates in order to maintain their accreditation, a prerequisite for federal financial aid.

The United States filed a False Claims Act suit in U.S. District Court for the District of Columbia against CSC Accounts Management, Inc., doing business as CSC Credit Services. The Department of Justice intervened in a *qui tam* action filed previously by several former employees of the firm. CSC Accounts Management, Inc. was a private debt-collection agency under contract with ED to collect defaulted student loans. The complaint alleges that CSC submitted false and fraudulent claims to the Department for the payment of commissions in 1995 and 1996. The scheme allegedly involved the falsification of loan documents and the making of false certifications concerning student loan consolidations. Many of these newly consolidated loans have since defaulted. The United States seeks damages in excess of $5 million.

Matching Records

In *Semiannual Report No. 37* (page 5) we discussed the systemic weaknesses that facilitate certain types of fraud against the student aid programs. We noted our office's strong support for the legislation to allow for the matching of applicant income data with Internal Revenue Service (IRS) records. While the Higher Education Act Amendments of 1998 authorized such a match, the IRS believes that additional legislation is needed. At the end of this reporting period, the Department of Education and the Department of the Treasury had not entered into an agreement to implement a match.

Elementary and Secondary Education

The OIG's efforts in elementary and secondary education this period focused on several areas.

Education Flexibility Partnership Act of 1999

The Education Flexibility Partnership Act of 1999, or Ed-Flex (P.L. 106-25), allows states to grant waivers to local school districts exempting them from certain provisions of the Elementary and Secondary Education Act (ESEA). Congress considered OIG's "Perspectives Paper," described in our last *Semiannual Report* (pages 4 and 17), in developing some of Ed-Flex's provisions.

Act Includes OIG-Recommended Provisions

The Act includes oversight and reporting provisions that we recommended in our ESEA Perspectives Paper. First, it requires state education agencies to annually monitor the activities of local education agencies and schools receiving waivers. Second, it requires each state to include, as part of its annual report on the results of such oversight, data demonstrating the degree to which progress has been made toward meeting the state's educational objectives.

School-to-Work

This period we issued "An OIG Perspective on the Sustainability of State School-to-Work Systems" *(ACN: S07-90001, issued May 14, 1999)* that summarizes findings from four recent ED/OIG and Department of Labor OIG audits on the sustainability of state school-to-work (STW) systems. Our report provided recommendations to assist the

National School-to-Work Office in helping states to develop STW systems that will be sustained after federal program funding ceases. Department officials concurred with our recommendations.

Schoolwide Programs

The Elementary and Secondary Education Act (ESEA) gives schools greater latitude in determining how to spend their federal funds. Instead of having to use these funds for specific programs, schools may now use them in Schoolwide Programs, which by definition employ strategies designed to improve the whole school.

OIG Staff Engage in Discussions on Schoolwide Issues

OIG staff were active participants and contributors in many meetings with the Department, congressional staff, states and school districts on Schoolwide Program issues this period. We met with school officials in Tennessee and South Carolina to discuss ways to combine funds in schoolwide programs. We also gave presentations on the subject at conferences in Texas, North Carolina, Vermont, and Mississippi. We also met with staff of the House of Representatives Title I Issues Group to discuss the flexibility that Schoolwide Programs provide.

Title I Fraud

The former principal of the Beth Rachel School for Girls, Brooklyn, New York, pled guilty to a federal mail-fraud conspiracy. Investigation disclosed that he conspired to obtain Title I and New York tax-levy funds to which the school was not entitled. The defendant arranged to have individuals placed on the New York City Board of Education payroll even though they were not entitled to the salary.

The defendant paid $1 million of restitution at his sentencing. Three Board of Education employees involved in this scheme were sentenced to probation and fined $1,000 each.

Quality of Non-Federal Audits

Participants in Department programs are required to submit annual financial statements and compliance audits performed by an independent certified public accountant (CPA). The Inspector General Act directs the Inspector General to take appropriate steps to assure that work performed by non-federal auditors complies with federal government auditing standards. OIG publishes audit guidance specific to Department programs to assist CPAs in performing independent audits.

Results of Reviews

This period we performed 51 quality control reviews of audits performed by independent public accountants.

Based on our reviews, we determined

- 66% were acceptable or contained only minor audit deficiencies,
- 22% were substandard requiring corrective action by the auditor, and

- 12% contained significant inadequacies that the Department could not rely upon.

For the audits containing significant inadequacies we have, in some instances, made referrals to the American Institute of Certified Public Accountants and the appropriate State Boards of Accountancy for possible disciplinary action. We also issued one suspension and debarment action against a non-federal auditor.

OIG Suspends CPA Firm

After reviewing several audits of proprietary schools participating in Title IV programs, performed by the CPA firm Daniel G. Falk & Associates (DGF&A), OIG concluded that the firm failed to adhere to professional standards. OIG therefore issued to Daniel Falk and DGF&A a Government-wide Suspension and Notice of Proposed Debarment from Federal Procurement and Nonprocurement Transactions.

While not agreeing to the allegations or violations of applicable audit standards, Daniel Falk and DGF&A agreed to be voluntarily excluded until July 1, 2001 from participating in any primary and lower tier covered transactions, pursuant to the Government-wide suspension and debarment regulations.

Improving Audit Quality

To improve audit quality, we communicate the types of audit deficiencies identified during our quality control reviews to other non-federal auditors in the form of "Dear CPA" letters. We will continue our efforts to assure that any work performed by IPAs complies with the standards established by the Comptroller General as set forth in the Inspector General Act.

P.L. 95-452 Reporting Requirements

Sections 5(a)(1) and 5(a)(2) Significant Problems, Abuses and Deficiencies

Significant Activities and Accomplishments 1-13

Investigation Services Cumulative Prosecutive Actions 23-27

Section 5(a)(3) Recommendations Described in Previous *Semiannual Reports* on Which Corrective Action Has Not Been Completed 15

Section 5(a)(4) Matters Referred to Prosecutive Authorities

Statistical Profile 29

Sections 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Refused or Not Provided*

Section 5(a)(6) Listing of Audit Reports

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Section 5(a)(7) Summary of Significant Audits 1

Significant Activities and Accomplishments 1-13

Section 5(a)(8) Audit Reports Containing Questioned Costs

Inspector General Issued Reports with Questioned Costs 19

Section 5(a)(9) Audit Reports Containing Recommendations That Funds Be Put to Better Use

Inspector General Issued Reports with Recommendations for Better Use of Funds 20

Section 5(a)(10) Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period

Unresolved Reports Issued Prior to April 1, 1999 21

Section 5(a)(11) Significant Revised Management Decisions*

Section 5(a)(12) Significant Management Decisions with Which OIG Disagreed*

*We have no instances to report.

RECOMMENDATIONS DESCRIBED IN PREVIOUS *SEMIANNUAL REPORTS* ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

Section 5(a)(3) of the Inspector General Act requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action. The reports listed below are OIG internal and nationwide audit reports and management improvement reports.

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	PAGE
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES					
03-50201	*COORDINATION AND COLLABORATION WITHIN THE OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES TO BETTER SERVE CUSTOMERS AND MANAGE PROGRAMS*	*09/30/97*	*	*34*	*18*
11-50201	*OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES SECRETARIAL REVIEW PROCESS IN NEED OF CHANGE*	*09/30/98*	*	*35*	*19*
OFFICE OF POSTSECONDARY EDUCATION					
04-40100	*HELPING TO ASSURE EQUALIZED EDUCATIONAL OPPORTUNITIES WITH HEA, TITLE III INSTITUTIONAL AID FUNDS - GLOBAL PERFORMANCE MEASURES NEEDED*	*08/31/95*	*	*31*	*11*
17-30305	*ANNUAL INTEREST GRANTS: IMPROVING THE PROCESS FOR PAYING THE REMAINING GRANTS*	*02/29/96*	*5,025,272*	*31*	*14*
04-60001	*PROCESS ENHANCEMENTS IN THE HEA, TITLE III, INSTITUTIONAL AID PROGRAM WOULD INCREASE PROGRAM EFFICIENCY, DESPITE LIMITED RESOURCES*	*08/31/96*	*	*32*	*09*
STUDENT FINANCIAL ASSISTANCE					
11-00010	*OFFICE OF STUDENT FINANCIAL ASSISTANCE DID NOT ASSURE THAT ALL INSTITUTIONS SUBMITTED AUDIT REPORTS OR THAT IT RECOVERED ALL MISSPENT FUNDS*	*09/30/93*	*33,800,000*	*24*	*63*
11-90040	*THE INSTITUTIONAL ELIGIBILITY PROCESS DOES NOT PROVIDE ADEQUATE ASSURANCE THAT ONLY ELIGIBLE SCHOOLS PARTICIPATE IN THE TITLE IV PROGRAMS*	*09/30/93*	*482,000*	*22*	*6*
*92-05***	*ED NEEDS TO STRENGTHEN STUDENT LOAN CURE PROCEDURES*	*09/30/93*	*154,000,000*	*24*	*12*
17-30302	*FINANCIAL AUDIT: FEDERAL FAMILY EDUCATION LOAN PROGRAM'S FINANCIAL STATEMENTS FOR FISCAL YEARS 1993 AND 1992*	*10/31/94*	*	*29*	*16*
11-30001	*INCONSISTENT INSTITUTIONAL PELL GRANT REPORTING RESULTS IN SIGNIFICANT EXPENDITURE DISCREPANCIES*	*07/31/95*	*	*29*	*15*
05-50008	*EFFECTIVENESS AND EFFICIENCY OF DEBT COLLECTION SERVICE - AREAS RELATED TO INTERNAL OPERATIONS*	*04/30/96*	*	*32*	*12*
11-50001	*ACCURACY OF STUDENT AID AWARDS CAN BE IMPROVED BY OBTAINING INCOME DATA FROM THE INTERNAL REVENUE SERVICE*	*06/30/97*	*109,000,000*	*34*	*08*
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-00333	*GREATER EMPHASIS NEEDED TO DEOBLIGATE UNEXPENDED CONTRACT FUNDS AND CLOSE OUT CONTRACTS ON TIME*	*03/31/94*	*7,500,000*	*26*	*17*
17-40302	*FINANCIAL STATEMENT AUDIT: U.S. DEPARTMENT OF EDUCATION FEDERAL FAMILY EDUCATION LOAN PROGRAM FOR THE YEARS ENDED SEPTEMBER 30, 1994 AND 1993*	*08/31/95*	*	*31*	*12*

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	SEMIANNUAL REPORT PAGE
OFFICE OF THE CHIEF FINANCIAL OFFICER (cont.)					
17-48320	*FINANCIAL STATEMENT AUDIT OF THE U.S. DEPARTMENT OF EDUCATION WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM*	*09/30/95*	*	*30*	*20*
17-40303	*THE REPORT OF INDEPENDENT ACCOUNTANTS ON THE U.S. DEPARTMENT OF EDUCATION FISCAL YEAR 1995 DEPARTMENT-WIDE FINANCIAL STATEMENTS*	*03/31/97*	*	*33*	*14*

* Non-monetary findings only
** Management improvement report

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ED/OIG Reports on Education Department Programs and Activities

(April 1 – September 30, 1999)

Section 5(a)(6) of the Inspector General Act requires a listing of each report completed by OIG during the reporting period. A total of 14 reports were completed by ED/OIG auditors. These reports are listed below. In addition, we issued 16 alternative products, which include action memoranda, management information reports, special projects, and field pricing reviews.

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
STUDENT FINANICAL ASSISTANCE						
A02-80005	UNIVERSIDAD INTERAMERICANA DE PUERTO RICO NEEDS TO IMPROVE ITS ADMINISTRATION OF TITLE IV PROGRAMS	PR	JUL-99		1,268,256	
A03-70010	AUDIT OF THE U.S. DEPARTMENT OF EDUCATION'S CLOSED SCHOOL PROCESS	DC	JUN-99	535,000	23,523,432	
A03-70012	REVIEW OF THE STUDENT STATUS CONFIRMATION REPORTING PROCESS	DC	AUG-99	*		
A05-80016	CITY COLLEGES OF CHICAGO'S ADMINISTRATION OF THE FEDERAL PELL GRANT PROGRAM	IL	JUL-99	278,600	308,106	
A05-90009	EAST-WEST UNIVERSITY'S ADMINISTRATION OF THE STUDENT FINANCIAL ASSITANCE PROGRAMS	IL	MAY-99	4,548	40,582	
A05-90040**	REVIEW OF GEMCOR INC.'S YEAR 2000 READINESS PLANS	IL	JUN-99	*		
A05-90046**	REVIEW OF NEW HAMPSHIRE HIGHER EDUCATION ASSISTANCE FOUNDATION'S YEAR 2000 READINESS	NH	AUG-99	*		
A06-80001	IMPROVING THE PROCESS FOR FORGIVING STUDENT LOANS	DC	JUN-99	*		35,000,000
A06-80011	AUDIT OF TEXAS CAREERS' COMPLIANCE WITH THE 85 PERCENT RULE	TX	AUG-99	2,021,119		
A06-80012	AUDIT OF COLLEGIATE SYSTEMS, INC. COMPLIANCE WITH THE 85 PERCENT RULE	OK	AUG-99	1,246,835		
A06-90007**	REVIEW OF THE YEAR 2000 READINESS PLANS OF MITCHELL SWEET AND ASSOCIATES, TEMPE, ARIZONA	AZ	JUN-99	*		
A09-80029	PACIFIC TRAVEL TRADE SCHOOL ELIGIBILITY TO PARTICIPATE IN TITLE IV PROGRAMS	CA	JUN-99	11,969,719		
A09-90002	UNITED EDUCATION INSTITUTE ELIGIBILITY TO PARTICIPATE IN TITLE IV PROGRAMS	CA	JUL-99	21,702,354		
A11-80004	REVIEW OF THE DEPARTMENT'S ACQUISITION PROCESS FOR OFFICE OF STUDENT FINANCIAL ASSISTANCE PROGRAMS (OSFAP) INFORMATION SYSTEMS	DC	MAY-99	*		
A17-90001**	REVIEW OF NON-TAX DELINQUENT DEBT AT THE U.S. DEPARTMENT OF EDUCATION	DC	SEP-99			
SFA 99-13	SUCCESS INSTITUTE OF BUSINESS, INC., HOUSTON, FAILED TO ENSURE STUDENT ELIGIBILITY AND PAY REFUNDS ON BEHALF OF STUDENTS	DC	JUN-99	*		
SFA 99-14	DEBT COLLECTION SERVICE CAN STRENGTHEN CONTROLS OVER FEES PAID TO COLLECTION AGENCIES THAT USE DIRECT LOAN CONSOLIDATIONS TO COLLECT DEFAULTED STUDENT LOANS	DC	JUL-99	*		

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF VOCATIONAL AND ADULT EDUCATION						
S07-90001	AN OIG PERSPECTIVE ON THE SUSTAINABILITY OF STATE SCHOOL-TO-WORK SYSTEMS	DC	MAY-99	*		
OFFICE OF THE DEPUTY SECRETARY						
S11-90016**	REVIEW OF YEAR 2000 COMPLIANCE FOR PROCESSING, DELIVERY AND ADMINISTRATION OF STUDENT FINANCIAL ASSISTANCE PROGRAMS	DC	JUL-99	*		
OFFICE OF CHIEF FINANCIAL OFFICER						
A04-80009	ASSESSMENT OF DIRECT CONSOLIDATION LOAN PROGRAM ADMINISTRATION AND OPERATIONS BY EDS, INC. SINCE DECEMBER 1, 1997	DC	MAY-99	*		
F03-90011	RESULTS OF FIELD PRICING REVIEW PERFORMEND RELATING TO THE CONTRACT PROPOSAL (NUMBER 5100-089A) SUBMITTED BY RATHEON E-SYSTEMS, INC., (RESYS) FALLS CHURCH, VA, UNDER THE U.S. DEPARTMENT OF EDUCATION (ED) CONTRACT NUMBER PM930130-01	VA	JUN-99	*		
A07-80018	AUDIT OF TITLE IV WIDE AREA NETWORK CONTRACT NATIONAL COMPUTER SYSTEMS, IOWA CITY, IA	IA	MAY-99	249,900		
F07-90005	PREAWARD REVIEW OF NATIONAL COMPUTER SYSTEMS' CONTRACT PROPOSAL SUBMITTED UNDER REQUEST FOR PROPOSAL ED-98-S-0020, "PUBLIC INQUIRY CONTRACT"	IA	APR-99	*		
F07-90019	PREAWARD REVIEW OF NATIONAL COMPUTER SYSTEMS' CONTRACT PROPOSAL SUBMITTED UNDER REQUEST FOR PROPOSAL ED-98-R-0035, EDITORIAL SERVICES CONTRACT	IA	JUN-99	*		
S07-90024	PUBLIC INQUIRY CONTRACT PREAWARD REVIEW, PROPOSAL ED-98-S-0020 SUPPLEMENTAL REQUEST - VERIFICATION OF DIRECT LABOR AND INDIRECT RATES	IA	JUN-99	*		
S07-90026	REQUEST FOR AUDIT ASSISTANCE - NATIONAL COMPUTER SYSTEMS VERIFICATION OF INDIRECT AND FEE RATES	IA	MAY-99	*		
A11-90004	REVIEW OF THE GRANT ADMINISTRATION AND PAYMENT SYSTEM (GAPS) CONFIGURATION MANAGEMENT PROCESS	DC	MAY-99	*		
S11-80015	YEAR 2000 (Y2K) READINESS OF GUARANTY AGENCIES	DC	MAY-99	*		
SFA 99-11	KEY PERSONNEL REQUIREMENTS SHOULD BE CLARIFIED PRIOR TO AWARD OF THE EDITORIAL SERVICES CONTRACT	DC	MAY-99	*		
SFA 99-12	ALLOWING CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVES TO AUTHORIZE WORK IS CONTRARY TO PROCUREMENT REGULATIONS	DC	MAY-99	*		

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* Non-monetary findings only
** Information Report
A Audit
F Field Pricing Report
S Other OIG Products (e.g., Inspections, Information Reports, Special Studies)
SFA Student Financial Assistance Action Memo

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INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS[1]

		NUMBER	QUESTIONED	UNSUPPORTED[2]
A.	For which no management decision has been made by the commencement of the reporting period (as adjusted)	29	$ 109,367,014	$ 17,458,187
B.	Which were issued during the reporting period	9	63,148,451	25,140,376
	Subtotals (A + B)	38	$ 172,515,465	$ 42,598,563
C.	For which a management decision was made during the reporting period	7	$ 3,830,098	$ 1,864,004
	(i) Dollar value of disallowed costs		1,512,821	769,709
	(ii) Dollar value of costs not disallowed		2,317,277	1,094,295
D.	For which no management decision has been made by the end of the reporting period	31	$ 168,685,367	$ 40,734,559
E.	For which no management decision was made within six months of issuance	14	$ 72,061,009	$ 11,828,885

[1] *None of the audits reported in this table were performed by the Defense Contract Audit Agency.*

[2] *Included in questioned costs.*

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS[1]

	NUMBER	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period (as adjusted)	3	$ 17,200,000
B. Which were issued during the reporting period	1	35,000,000
Subtotals (A + B)	4	$ 52,200,000
C. For which a management decision was made during the reporting period	1	2,900,000
(i) Dollar value of recommendations that were agreed to by management	0	0
(ii) Dollar value of recommendations that were not agreed to by management	1	2,900,000
D. For which no management decision has been made by the end of the reporting period	3	$ 49,300,000
E. For which no management decision was made within six months of issuance	2	$ 14,300,000

[1] *None of the audits reported in this table were performed by the Defense Contract Audit Agency.*

UNRESOLVED REPORTS ISSUED PRIOR TO APRIL 1, 1999

Section 5(a)(10) of the Inspector General Act requires a listing of each report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION								
02-36113	VIRGIN ISLANDS DEPARTMENT OF EDUCATION	VI	02/17/95	10,375,000	05	***	30	17
02-50200	THE PUERTO RICO DEPARTMENT OF EDUCATION MUST INSTITUTE A TIME DISTRIBUTION SYSTEM	PR	11/14/97	*	05	***	36	13
STUDENT FINANCIAL ASSISTANCE								
09-10007	WESTERN TRUCK SCHOOL	CA	09/10/92	8,834,503	01	03/31/00	25	78
05-40007	REPORT ON THE TRANSITIONAL GUARANTY AGENCY'S ROLE IN GUARANTY AGENCY TRANSITION	MN	06/02/95	*			31	7
06-60006	ELIMINATING ADVANCE FUNDING WOULD ENHANCE THE INTEGRITY OF THE FEDERAL PELL GRANT PROGRAMS	DC	08/28/97	*			35	13
03-60009	ADMINISTRATION OF THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM BY SCHOOLS	DC	10/15/97	*		12/31/99	36	12
05-70004	STRATEGIC PLANNING AND PERFORMANCE MEASUREMENT FOR GUARANTOR AND LENDER OVERSIGHT SERVICE ACTIVITIES CAN HELP FOSTER ACHIEVEMENT OF AN EFFICIENT AND EFFECTIVE FEDERAL FAMILY EDUCATION LOAN PROGRAM	DC	11/12/97	*	01		36	16
06-70005	PROFESSIONAL JUDGEMENT AT YALE UNIVERSITY	CT	03/13/98	5,469	01	03/31/00	36	18
07-70002	INCOME CONTINGENT REPAYMENT: COST ATTRIBUTION AND BORROWER STUDIES COULD ASSIST TO MEET OBJECTIVES OF FEDERAL FINANCIAL REPORTING	MO	06/01/98	*			37	19
06-70004	APPLICANTS WITH DEFAULTED STUDENT LOANS CONTINUE TO RECEIVE FINANCIAL AID	DC	06/23/98	*			37	18
06-70009	PROFESSIONAL JUDGEMENT AT THE UNIVERSITY OF COLORADO	CO	07/17/98	15,082	01	03/31/00	37	17
09-70015	ASSOCIATED TECHNICAL COLLEGE (ATC) ELIGIBILITY OF INSTITUTIONS TO PARTICIPATE IN TITLE IV PROGRAMS AND OTHER ISSUES	CA	09/09/98	8,600,000	01	03/31/00	37	16
04-70016	REVIEW OF THE DEPARTMENT'S OVERSIGHT OF SCHOOLS PARTICIPATING IN THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM	DC	09/25/98	*			37	15
09-80023	ACADEMY PACIFIC BUSINESS & TRAVEL COLLEGE ELIGIBILITY TO PARTICIPATE IN TITLE IV PROGRAMS	CA	12/21/98	6,649,689	01	03/31/00		
07-23545	MISSOURI STATEWIDE	MO	04/01/93	1,048,768	01		**	
09-10005	CALIFORNIA STUDENT AID COMMISSION	CA	09/10/93	41,100,000	01		27	17
09-33114	STATE OF CALIFORNIA	CA	12/24/93	4,191,032	01		28	18
07-33123	MISSOURI STATEWIDE	MO	03/07/94	187,530	01		**	
05-30010	NORTHSTAR GUARANTEE INCORPORATED	MN	08/16/94	619,287	01		29	31

REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
04-60147	REVIEW OF SELECTED ASPECTS OF THE KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY'S ADMINISTRATION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM	KY	02/18/97	1,263,251	01		34	9
06-70001	NSLDS CAN BE ENHANCED IF LOAN PRINCIPAL AND INTEREST BALANCES AND STATUSES ARE UPDATED WITH LENDER DATA	DC	09/30/98	*	01		37	17
11-70002	AUDIT OF THE POSTSECONDAY EDUCATION PARTICIPANTS SYSTEM DEVELOPMENT	DC	02/12/99	*				
11-70010	REVIEW OF THE DEPARTMENT'S REQUIREMENTS DEFINITION & TESTING PROCESSES FOR THE LOAN ORIGINATION AND LOAN CONSOLIDATION SYSTEMS	DC	03/30/99	*				
OFFICE OF VOCATIONAL AND ADULT EDUCATION								
04-53670	FLORIDA STATEWIDE	FL	10/04/95	2,855,402	05	12/31/99	**	
04-43134	FLORIDA STATEWIDE	FL	12/05/94	615,996	05	12/31/99	**	
07-70004	STATE OF NEW MEXICO: SUSTAINABILITY OF THE SCHOOL-TO-WORK OPPORTUNITIES	NM	05/27/98	*	04		37	21
07-80004	STATE OF MISSOURI SUSTAINABILITY OF THE SCHOOL-TO-WORK OPPORTUNITIES PROGRAM	MO	11/30/98	*	04			
OFFICE OF THE DEPUTY SECRETARY								
17-70007	MOVING TOWARDS A RESULTS-ORIENTED ORGANIZATION: A REPORT ON ED'S IMPLEMENTATION OF THE RESULTS ACT	DC	09/24/98	*			37	14
OFFICE OF BILINGUAL EDUCATION AND MINORITY LANGUAGES AFFAIRS								
04-60152	REVIEW OF MONITORING CONTROLS USED TO ENSURE FULFILLMENT OF TITLE VII BILINGUAL EDUCATION GRANT PROGRAM OBJECTIVES	DC	06/30/97	*			35	17
OFFICE OF THE CHIEF FINANCIAL OFFICER								
11-80013	REVIEW OF GAPS SECURITY	DC	09/30/98	*	01	05/31/00	37	12

NOTES

* Non-monetary findings only

** Not individually written up

*** Information not provided by Department principal operating component

REASON CODES FOR REPORTS OVER SIX MONTHS OLD

01 - Administrative delays

02 - Delay in receiving auditee comments or additional information from auditee

03 - Delay in receiving additional information from nonfederal auditor.

04 - Lack of staff

05 - Cooperative Audit Resolution and Oversight Initiative pilot state

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INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
SCHOOL CASES					
Avery, Ronald	■	■	X		$250,000
Barnes, Richard	X	X			
Cefaratti, Frank	■	■	X		$846,000
Cefaratti-Diaz, Carole	■	X			
Malavet, Gloria	■	■	X		$1,000
Perez, Modesta	■	■	X		$1,000
Cox, Wayne	X				
Larnes, Georgia	X	X			
Jensen, Susan	■	■	X		$914,000
Nelson, Steven R.	■	X			
Pretrial Diversion - Employee			X		$65,000
Petrusa, Elizabeth	X				
Bengston, Winnie	X				
Trim Poret, Japenia	X	X	X		$44,635
Weaver, Judy	X	X			
Williams, Kenneth	X	X	X		$1,000
Wrenn, Robert	X				
		Total Value School Cases:			**$2,122,635**

■ = Action reported in previous period

X = Action reported in current period

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
CONSULTANT CASES and CLIENT CASES					
Molitor, Michael	■	■	X		$125,000
Amos, Eddie				X	
Baska, Kathleen				X	
Baska, Michael				X	
Behen (Roberts), Kelly				X	$3,811
Brawner, Laleta A.				X	$12,210
Burnett, Reynard				X	$7,775
Chandler, Unique				X	$4,600
Decoster, Andrea M.				X	$5,055
Hill, Kamasi				X	$6,150
Hill, Nonzwakazi T.				X	$17,760
Hurst, Kareem J.				X	$4,600
Johnson, Lamarr A.				X	$7,485
Levens, Jamilah				X	$7,797
Levens, Kamilah				X	$9,952
Lewis, Kiana				X	$4,300
Lisbon, Tracie L.				X	$7,725
Lockhart, Derrick				X	$3,450
Lockhart, Lameitre C.				X	$15,190
Maddox, Kea R.				X	$8,400
Ormiston, Samuel				X	$2,500
Pondexeter, Kijuanna S.				X	$8,655
Rizza, Michael				X	
San, Keo				X	
Sanders, Amber O.				X	$3,450
Schwarten, Rebecca				X	
Smith, Brice				X	

■ = Action reported in previous period

X = Action reported in current period

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
Waterfield, Christopher				X	$1,000
Young, Kyman J.				X	$9,435
		Total Value Consultant Cases:			**$276,300**
FOREIGN STUDY FFELP PROJECT					
Glenn, Lamart	■	X			
Bandy, Howard	■	X	X		$18,500
Dalton, Fredrick	■	X	X		$10,500
Metellus, Jacques Ernst	■	■	X		$27,360
Rivera, Jose	X	X			
		Total Value Foreign Study FFEL Cases:			**$56,360**
NON SFA CASES					
Frankel, Hertz	X	X	X		$1,000,000
LaBianca, Daniel	■	■	X		$1,000
McCleer, Gordon	■	■	X		$1,000
Rehm, Robert	■	■	X		$1,100
		Total Value Non-SFA Cases:			**$1,003,100**
SFA RECIPIENT CASES					
Anderson, Derek	■	X	X		$86,274
Bright, Edwina Diane	X				

■ = Action reported in previous period

X = Action reported in current period

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
Easton, Michael	■	■	X		$7,040
Hall, Phyllis Jean	X				
Lewis, Patrice	■	X	X		$38,848
Miller, Wendy	■	■	X		$17,299
Moran, Edgardo	■	■	X		$4,000
Mounce, Susan L.	X	X			
Nasorri, Mashallah	X				
Nwoke, Anthony	■	■	X		$9,426
Pantera, James	■	■	X		$57,043
Payne, Kenneth	X				
Perrin, Glory	■	X	X		$5,040
Pretrial Diversion – Student A			X		$26,245
Pretrial Diversion – Student B			X		$26,245
Silva, Kary	■	■	X		$0
Spears, Angela	■	X	X		$54,609
Tshimanga Kolanga, Jean-Claude	■	■	X		$93,000
Tshimanga, Casondra	■	■	X		$93,687
Wells III, William Kenneth	X	X			
Pretrial Diversion – Student C			X		$6,889
		Total Value SFA Recipient Cases:			**$525,645**
CIVIL CASES					
Boyd, Tony				X	$14,000
CSC Accounts Management, Inc				X	
Corus Bancshares Inc.				X	

■ = Action reported in previous period

X = Action reported in current period

INVESTIGATION SERVICES
CUMULATIVE PROSECUTIVE ACTIONS

DEFENDANT/ SUBJECT	INDICTED/ INFORMATION	CONVICTED	SENTENCED	CIVIL MATTERS	ADJUDICATED VALUE
Mautner, Irwin	■	■	■	X	$1,000,000
Programming & Systems Inc	■	■	■	X	$515,000
		Total Value Civil Cases:			**$1,529,000**
EMPLOYEE CASES					
Edens, Wesley	■	■	X		$11,412
		Total Value Employee Case:			**$11,412**

■ = Action reported in previous period

X = Action reported in current period

COLLECTIONS FROM AUDITS AND INVESTIGATIONS

The House Report (H. Rept. 105-635) to accompany H.R. 4274 directs the Inspector General of the U.S. Department of Education to submit reports detailing recoveries and savings generated by its work. The following tables reflect that information.

AUDIT

FY	RPTS ISSUED WITH QUEST/UNSUPP	QUEST/UNSUPP RECOMMENDED	RPTS WITH QUEST/UNSUPP RESOLVED	RECOMMENDED QUEST/UNSUPP RESOLVED	MANAGEMENT DECISION	WRITE OFFS ADJUSTMENTS	COLLECTED/ RECOVERED	BALANCE
FY 98	11	$17,011,401	8	$6,162,004	$1,669,155	0	$1,669,155*	0
FY 99	11	$69,804,793	1	$131,653	$26,482	0	$22,215	$4,267
TOTAL	22	$86,816,194	9	$6,293,657	$1,695,637	0	$1,691,370	$4,267

*$769,709 collected as a prospective rate adjustment

INVESTIGATION

FY	CASES *	FINES, RESTITUTIONS, SETTLEMENTS AND JUDGEMENTS	AMOUNT COLLECTED CURRENT PERIOD	AMOUNT COLLECTED PRIOR PERIOD(s)	AMOUNT COLLECTED
FY 98	293	$48,208,055	$1,658,800	$29,068,289	$30,727,089
FY 99	133	$19,154,906	$7,001,533		$7,001,533
TOTALS	426	$67,362,961	$8,660,333	$29,068,289	$37,728,622

* Number of cases for which collection was ordered during the fiscal year.

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STATISTICAL PROFILE

April 1 – September 30, 1999

	Six-month Period Ending 9/30/99	Fiscal Year Ending 9/30/99
OIG AUDIT REPORTS ISSUED	**14**	**26**
Questioned Costs	$ 38,008,075	$ 44,664,417
Unsupported Costs	$ 25,140,376	$ 25,140,376
Recommendations for Better Use of Funds	$ 35,000,000	$ 35,000,000
OTHER OIG PRODUCTS *(Inspections, Action Memoranda, Information Reports, Special Studies, and Field Pricing Reviews)*	16	45
OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	**22**	**28**
Questioned Costs Sustained	$ 743,112	$ 3,342,821
Unsupported Costs Sustained	$ 769,709	$ 805,847
Additional Disallowances Identified by Program Managers	$ 118,521	$ 334,841[1]
Management Commitment to Better Use of Funds	$ 0	$ 0
INVESTIGATIVE CASE ACTIVITY		
Cases Opened	84[2]	204
Cases Closed	99	220
Cases Active at End of Period	302	302
Prosecutorial Decisions	80	124
Accepted	58[3]	89
Declined	22[4]	35
INVESTIGATION RESULTS		
Indictments/Informations	19	47
Convictions/Pleas	19	52
Fines Ordered	$ 19,705	$ 77,542
Restitutions Ordered	$ 3,835,063	$ 10,556,256
Restitution Payments Collected	$ 2,235,484	$ 9,199,110
Civil Settlements (number)	$ 29[5]	$ 92
Civil Settlements/Judgments	$ 1,701,625[6]	$ 8,521,108[7]

[1] Includes $216,320 not reported in our last *Semiannual Report.*
[2] Includes four cases that were not reported in our last *Semiannual Report.*
[3] Includes twenty-one cases that were not reported in our last *Semiannual Report.*
[4] Includes seven cases that were not reported in our last *Semiannual Report.*
[5] Includes three actions that were not reported in our last *Semiannual Report.*
[6] Includes $17,025 that was not reported in our last *Semiannual Report.*
[7] Includes $181,311 that was not reported in *Semiannual Report No. 37* (page 46).

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